



Kathy Lynn

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PMcc:  
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Subject: Cuiaba

The issues on the Cuiaba plant are as follows:

1. **The plant has no long term gas supply arrangements at this time.** A 20 year contract was negotiated with YPF, utilizing Argentine gas, however, YPF has only been able to obtain a 1 year transport permit to transport the gas from Argentina across Bolivia to Brazil. YPF is attempting to have the transport permit extended to 20 years, however, the gas supply contract will expire on May 4, 2001 if the permit is not extended by that time. Enron has agreed to supply fuel to the plant if necessary until May 4, 2001 and if the YPF contract expires on that date, Enron will have 12 months to arrange a long term replacement supply. If the replacement fuel supply is not in place by May 4, 2002, Enron's back up obligations convert to a debt service guaranty. If the replacement fuel supply is not in place by May 4, 2003, the Lenders can put their debt back to Enron.
2. **The plant has experienced operational problems as a result of operating on fuel oil instead of gas.** The Siemens turbines were not designed to operate on fuel oil for the duration that has been experienced as a result of the plant not having gas supply. The turbines experienced failure of the ceramic tiles that are used for heat resistance. The tiles have been replaced, however, it is uncertain how the turbines will continue to perform under the current operating conditions. Gas is not expected to reach the plant for another 2-3 months when the pipeline is completed.
3. **Conditions precedent for the permanent financing have not been satisfied, which is impairing returns.** Enron and Shell (the Sponsors) and the Lenders, OPIC/KfW, have agreed on a contingent sponsor support package whereby the Sponsors will provide indemnities or contingent support to deal with gas supply risk, currency conversion risk and transfer risks. However, the Lenders require consents for the assignment of the Power Purchase Agreements to the Lenders. These consents are needed from two Brazilian companies, Electrobras and Furnas, who are currently refusing to sign the consents. Therefore, until the consents are obtained, OPIC/KfW will not fund. There is currently no good estimate of when these consents may be obtained and the financing funded.
4. **The project has experienced cost overruns due to the delayed start and change orders of \$148.4 MM on an original budget of \$519 MM, which is impairing returns.** These cost overruns consist of i) \$55.5 MM of late start penalties payable to the power purchaser, Furnas, ii) \$8.5 MM of Additional Interest During construction, iii) \$38.3 MM of change orders and iv) \$46.2 MM of additional scope of work on the pipeline.

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Confidential Treatment  
Requested

<http://www.ljminvestments.co.../C6CAFBF7840FAE938625695B00744BDE?OpenDocumen> 9/18/2000

**GOVERNMENT  
EXHIBIT**

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